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Policies of the National Government

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Britain's Economic Recovery

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with the aid of the Research Staff of the Foreign Policy Association

GREAT BRITAIN'S marked recovery from the low point of the world depression and the relatively strong financial position of the British government have attracted widespread attention. While other countries still labor under huge budgetary deficits, the British Chancellor of the Exchequer has twice in succession announced a surplus at the end of the financial year and reduced taxation for the following year in spite of increased government expenditure. Since the first National Government took office in August 1931 there has been a drop of three-quarters of a million in the number of registered unemployed and a rise of over a million in the number of insured workers in employment. The index of industrial production has been rising since the middle of 1932, and in 1934 had almost reached the 1929 level.[1] While production, foreign trade, industrial profits and more recently wages have all increased, wholesale and retail prices have remained relatively steady and the cost of living has tended downward.[2] At the same time the gold value of the pound has fallen, exports amount to little more than half their 1929 value, agriculture is unprofitable, and over 2,000,000 British workers are without employment. Such economic paradoxes are cause for inquiry into the policies adopted by the National Government to combat depression.

The National Government took office when confidence was at a low ebb. A financial crisis had struck the country during the summer of 1931:[3] the freezing of British short-term credits in Central Europe and the prospects of a budget deficit three times as great as that estimated by the Chancellor of the Exchequer started a hurried repatriation of foreign money from London which threatened the gold reserves of the Bank of England. In order to bolster the pound, the Federal Reserve Bank of New York and the Banque de France made emergency advances to the Bank of England; on August 24 the first National Government was formed for the explicit purpose of balancing the budget and securing a further loan in Paris and New York. Mr. Snowden, Chancellor of the Exchequer, achieved his object by increasing the excise and income taxes and by cutting salaries, the appropriations for defense and civil services, and unemployment insurance benefits, while making transitional unemployment benefit subject to a test of needs.[4]

Nothwithstanding these measures, the Bank of England was forced to suspend gold payments on September 20, thus revealing that the weakness of the pound, although accentuated by the crisis of the summer, was essentially due to the general weakness of Britain's economic position.[5] Ever since the war British industry had been hampered by the high taxation required to pay the heaviest national debt in the world, by relatively high wage levels, overcapitalization, surplus and often antiquated plant, inefficient marketing methods, and the burden of supporting over a million unemployed. Return to gold at pre-war parity with the dollar, unsettled conditions in Asiatic markets and intensified economic nationalism crippled the great exporting industries—coal, metals and textiles, engineering and shipbuilding—which had formed the backbone of pre-war British industrial economy.[6] The world depression not only increased

1. *Board of Trade Journal,* March 28, 1935.

2. Cf. *ibid; The Economist,* January 19, 1935; and *Ministry of Labour Gazette, Supplement,* February 1935.

3. Cf. Maxwell S. Stewart, "Britain's Financial and Economic Crisis," *Foreign Policy Reports,* November 11, 1931.

4. Finance (No. 2) Act, 1931, *Public General Acts,* 21 and 22 George V, Chapter 49, Parts I and II; National Economy Act, 1931, *ibid.,* Chapter 48.

5. Cf. Stewart, "Britain's Financial and Economic Crisis," cited, for a detailed analysis of post-war British economy.

6. In 1927 the percentage of unemployed insured workers in the exporting trades had been 80 per cent higher than in others, and was still considerably higher when both figures were raised by the world depression.

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Britain's customary adverse balance of commodity trade, but also caused a shrinkage in the invisible credit items of shipping income and net income from overseas investments which turned the estimated credit balance of total payments of £103 million into a debit balance of £104 million.[7]

In spite of this vulnerable position, the economic life of the nation in the hour of crisis was not brought to the desperate standstill which confronted President Roosevelt in 1933. The lack of any spectacular boom in the 1920's saved Great Britain from collapses of stock exchange and real estate values such as accentuated the American crisis. Neither the trade depression nor the difficulties of the pound shook the centralized British banking system. Economic relationships did not require sudden compulsory reform, since the bargaining rights of trade unions had long been recognized by both government and employers, and numerous wage agreements provided for final appeals to government arbitration. Foresight in more normal times had provided widows' and old age pensions, unemployment insurance for the majority of industrial workers, and a national dole system and local poor relief for the remainder; all of these constituted a bulwark against collapse of purchasing power and emergence of mass unrest far stronger than that of private charity or hastily organized relief of the United States. The government already possessed considerable regulative powers over industry. Railways were supervised under the Railways Act of 1921, which reorganized 120 companies into four great systems. The post-war depression in the coal industry had forced a licensing system of production for both foreign and domestic markets by the Coal Mines Act of 1930. The Electricity Supply Act of 1926 had inaugurated the generation of electricity according to a national "grid" system under a Central Electricity Board appointed by the Minister of Transport. The Export Credits Guarantee Department of the government employed a revolving credit of £25 million to aid the British exporter by guaranteeing the solvency of the overseas buyer in his own country up to 75 per cent of his contract. Moreover, Britain's unitary system of government and the supremacy of Parliament precluded voiding of legislation by the judiciary on the ground of unconstitutionality or interference with states' rights.[9]

7. Official Board of Trade figures (revised) for 1929 and 1931, *The Economist,* February 18, 25, 1933.

9. For the strength and weakness of the British position compared with that of the United States, cf. Herbert Heaton, *The British Way to Recovery* (Minneapolis, University of Minnesota Press, 1934), pp. 10-18.

NATIONAL GOVERNMENT'S RECOVERY MEASURES

In October 1931, however, the shock of the forced departure from gold caused the people to agree with the Prime Minister that the time was one of "exceptional urgency" and that the nation was faced with a critical period of readjustment. On the ground that party differences must be sunk if the national emergency were to be surmounted, the political groups composing the first National Government—Conservatives, Liberals and National Labour—appealed to the country on October 7 for a return to power. They offered no large-scale program of economic reform and reorganization, but proposed to use every means, and especially a protective tariff, to offset a possible further fall in the pound due to Britain's highly unfavorable trade balance.[10] At the general election of October 27 the government parties won 554 out of the 615 seats in the Commons, and Ramsay MacDonald became Prime Minister for the fourth time. Conservatives won 471 seats and were rewarded with eleven out of twenty ministries in the Cabinet of the second National Government.[11]

ORTHODOX FINANCE

Although the second National Government announced on taking office that the time was "not ripe" for a return to the gold standard, it declared against the institution of a currency "managed" on behalf of British trade,[12] and protected the exchange value of sterling in the orthodox manner by maintenance of Bank rate at 6 per cent and restrictions on dealings in foreign exchange and securities.[13] By February 1932 the government was able to take advantage of the returning financial confidence which followed the balancing of the budget, victory of the National Government at the polls, and large repayments of emergency Bank of England borrowings with gold imports from India. On February 18, when quotations on British government securities had risen 6 to 10 points above their 1931 lows, Bank rate was lowered to 5 per

10. Cf. the Prime Minister's Appeal to the Nation and the Conservative and Liberal Party Manifestoes, *The Times* (London), October 8, 9, 10, 1931.

11. Since the Cabinet shake-up of June 7, 1935 there have been 15 Conservatives in a Cabinet of 22.

12. Cf. the speech from the Throne and statements of the Prime Minister, *Parliamentary Debates, House of Commons, Official Reports,* November 10, 16, 1931; vol. 259, pp. 46 and 499; and speech of the Chancellor of the Exchequer, *ibid.,* December 10, 1931, vol. 260, pp. 2108-15.

13. Cf. *The Times,* September 17, 21, 1931, and *Statutory Rules and Orders,* No. 991, 1931.

cent.[14] On March 2 the Chancellor announced that the Treasury was rescinding its order prohibiting the purchase of foreign exchange and that by March 4 all but £17 million of the Bank's emergency borrowings would be repaid.[15]

Recognizing that the sharp rise in the value of the pound which followed these reassuring announcements[16] was "flattering to our vanity but at the same time sometimes a serious embarrassment to our trade,"[17] Mr. Chamberlain in his budget speech proposed to constitute a permanent government agency with power to steady exchange fluctuations. The Finance Act of 1932 accordingly set up an Exchange Equalization Account with assets consisting of Treasury bills and an advance by the Account to the Exchequer representing the difference between the working capital actually required and its maximum legal size of £175 million.[18] Within this limit—increased by the 1933 Finance Act to £375 million—the managers of the Account were empowered to buy gold, sterling and foreign exchange, with the object not of "pegging" the pound but of counteracting its speculative and short-term fluctuations.

On June 30 Mr. Chamberlain took advantage of the low interest rates, the exceptional rise in the quotations of government securities,[20] and the "mood for great enterprises" in the country to announce the terms of the conversion of the £2,000,000,000 5 per cent War Loan to a 3½ per cent basis following the December 1 interest payment.[21] "More than a success, a triumph"[22] attended the boldness of the Chancellor, who had to provide cash to redeem only 8 per cent of this total. Before the end of the year the Treasury offered a £150,000,000 2 per cent bond issue and another conversion loan of £300,000,000 at 3 per cent, thus converting one-third of the total internal debt of the British government from just under 5 per cent to below a 3½ per cent basis at an annual net saving of £30,000,000 within little over a year after the nation's financial crisis. By continuing its cheap money policy the National Government has been able not only to continue to borrow at low rates, but to convert previous borrowings of £50,757,000 into a 2½ per cent conversion loan in September 1933 and of £105,000,000 into a 3 per cent funding loan in April 1934.

Mr. Chamberlain's strict budget orthodoxy has substantially contributed to the achievement and maintenance of cheap government borrowing. Any hope of tax relief in his budget of April 1932 was shattered "on the cold rocks of financial rectitude."[23] After finding that this budget had been somewhat optimistic with regard to tax receipts, the Chancellor of the Exchequer in 1933 forecast that still lower revenue would accrue on the basis of the low year of the depression; he balanced the budget, however, by capitalizing the savings in debt services made possible by the 1932 conversions and by omitting provision for the sinking fund. He emphatically rejected widely publicized proposals for large-scale loan expenditure on public works as a panacea for unemployment, the national income and future budgets.[24]

In 1934 Mr. Chamberlain presented instead of *Bleak House* a budget of *Great Expectations,* which balanced at a figure £7,700,000 above that of 1933-1934. He proposed to rescind a substantial portion of the emergency measures of September 1931 by returning from a 5 shilling to a 4/6 basic income tax rate, restoring one-half the pay cuts and abrogating the entire reduction in unemployment benefit. Continued buoyancy of income tax, surtax and other inland revenue enabled the Chancellor of the Exchequer, after announcing another surplus for 1934-1935, to reduce taxation for the current financial year. For 1935-1936 he lowered the tax and raised exemptions and allowances for the lowest income brackets, reduced the emergency entertainments tax on theatres, and restored the remaining half of salary cuts to government officials—thus almost completely wiping out the emergency measures adopted by his predecessor. The steadily increasing expenditure of government departments—for 1935-

14. Cf. "City Notes," *The Times,* February 19, 1932. Subsequent reductions followed quickly, till Bank rate reached 2 per cent on June 30, 1932—the figure at which it has since remained.

15. Statement of Neville Chamberlain, *Parliamentary Debates, House of Commons, Official Reports,* March 2, 1932, vol. 262, pp. 1102-3; *Statutory Rules and Orders,* No. 92, 1932.

16. The dollar quotations of the pound had varied as follows:

November 1, 1931	$3.82—3.85
December 1	3.27—3.37
January 1, 1932	3.40—3.42
February 1	3.44—3.45½
March 1,	3.48—3.48¾
March 15	3.62½—3.64
April 1	3.79—3.83½
April 15	3.76—3.77¾

17. *Parliamentary Debates, House of Commons, Official Reports,* April 19, 1932, vol. 264, p. 1425.

18. *Public General Acts,* 22 and 23 George V, Chapter 25, Part IV. Unlike its American and Belgian imitations, the British Account could not be financed by the profits of devaluation, since the Bank of England's gold is still valued at its former par. For further details, cf. *The Economist, Banking Supplement,* May 13, 1933, pp. 6-8.

20. The average yield estimate on British funds had fallen to barely 3¾ per cent. "City Notes," *The Times,* June 30, 1932.

21. The Finance (No. 2) Act, 1931, cited, Part III, had made provision for this conversion.

22. *The Economist,* August 20, 1932.

23. *The Times,* leading article, April 20, 1932.

24. Cf. John Maynard Keynes, *The Means to Prosperity* (New York, Harcourt Brace, 1933), Chapters 1-4.

1936, including a substantial rise in the war budget —remains the chief disconcerting feature of the National Government's annual accounting. The following table presents the four budgets of Mr. Chamberlain, together with the actual revenues and expenditures of the preceding year.[25]

ORDINARY REVENUE[1]

(in £ millions)

	1931-32	*1932-33*		*1933-34*		*1934-35*		*1935-36*
	Actual	*Budget*	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*	*Budget*
Customs	136.2	174.6	167.2	167.9	179.2	183.7	185.1	188.6
Excise	119.9	125.4	120.9	101.2	107.0	106.3	104.6	106.4
Income and surtax	364.1	326.0	312.2	279.8	281.5	269.5	280.0	284.0
Other inland revenue	89.9	106.0	104.3	103.1	115.8	108.0	113.7	112.5
Total tax revenue	710.5	732.0	704.6	652.0	683.5	667.5	683.4	691.4
Total non-tax revenue	60.5	34.8	40.1	46.7	41.1	39.0	33.1	43.1
Total ordinary revenue	771.0	766.8	744.8	698.8	724.6	706.5	716.5	734.5

EXPENDITURE[1]

(in £ millions)

	1931-32	*1932-33*		*1933-34*		*1934-35*		*1935-36*
	Actual	*Budget*	*Actual*	*Budget*	*Actual*	*Budget*	*Actual*	*Budget*
National debt services	322.0	308.5	279.5	224.0	220.7	224.0	224.0	224.0
Other consolidated fund services	9.4	10.3	10.3	10.3	10.7	12.2	12.7	11.6
Defense services	107.3	104.4	103.0	108.9	107.9	113.7	113.9	124.3[1a]
Civil services	320.1	330.2	355.3	341.8[2]	350.8	335.6	358.3	357.0[3]
Customs, excise and inland revenue	11.8	12.6		12.5		12.6		13.2
Total ordinary expenditure	770.6	766.0	748.1	697.5	690.1	705.7[4]	708.9	734.0[5]
War debt payments to U. S. A.	....	....	29.0	....	3.3	....	....	....
Total expenditure	770.6	766.0	777.1	697.5	693.4	705.7	708.9	734.0

1. Exclusive of the self-balancing revenue and expenditure of the Post Office and Road Fund.
1a. A supplementary estimate of £5,335,000 for the Air Force was voted on July 21. *New York Times*, July 22, 1935.
2. Includes £22.5 million as margin for supplementary estimate of Ministry of Labour.
3. Includes £4.0 million for supplementary estimates.
4. Includes £7.6 million for restoration of pay cuts.
5. Includes £4.0 million for restoration of pay cuts.

CHEAP MONEY FOR INDUSTRY

By restoring financial confidence and favoring a cheap money régime to aid its conversion operations, the National Government helped to restore lower borrowing rates to British industry. At the same time, Mr. Chamberlain's expectation that "great benefits should flow to industry" from the War Loan conversion was partially offset by his embargo on other loans while the conversion was being carried out and by extension of the embargo on conversions involving either cash payments or underwriting until January 13, 1933. The ban against new foreign issues was not formally raised until July 1934, and then only on loans to members of the sterling area for the purpose of increasing British exports or the sterling assets of the foreign country concerned.[27]

The government, moreover, has not taken advantage of the prevalent low interest rates in order to finance a public works program. In 1931 it halted its road-building program and issued circulars to local authorities urging economy. On the recommendation of the (Ray) Committee on Local Expenditure, it discontinued in 1933 the general house-building subsidies of the 1923 and 1924 Acts.[28] Its loan-guarantee policy to private builders and present ambitious plans for slum clearance,

25. *The Economist, Budget Supplement*, April 16, 1932; April 15, 1933; April 14, 1934; April 13, 1935; *The Economist*, April 20, 1935.

27. Cf. Mr. Chamberlain's statement, *Parliamentary Debates, House of Commons, Official Reports*, July 19, 1934, vol. 292, pp. 1260-61. The sterling area, or "bloc," comprises the Scandinavian countries, Finland, Estonia and Portugal, in addition to the British Empire with the exception of Canada.

28. Housing (Financial Provisions) Act, 1933, *Public General Acts*, 23 and 24 George V, Chapter 15.

elimination of overcrowding in tenement districts[29] and a five-year road construction program do not involve expenditure which deliberately unbalances the national budget. The Chancellor of the Exchequer "raided" the road fund of its estimated surplus of £4,470,000 for 1935-1936 in order to reduce taxation.

PROTECTION FOR THE HOME MARKET

In the election campaign of 1931 the government parties advocated a protective tariff on the ground that the depreciation of sterling was insufficient to offset the large imports of cheap goods which threatened Britain with international bankruptcy.[30] Under the Abnormal Importations (Customs Duties) Act of November 1931 the Board of Trade levied duties up to 50 per cent *ad valorem* on 49 classes of manufactured goods which were arriving in exceptional quantities in anticipation of a general tariff.[31] On February 4, 1932 Mr. Neville Chamberlain introduced the government's general tariff measure, by which it hoped to raise revenue, protect the pound, increase home production and obtain a bargaining weapon for lowering Dominion and foreign tariffs.[32] The Import Duties Act, which became effective on March 1, levied a 10 per cent *ad valorem* customs duty on all retained foreign imports except those already dutiable or enumerated on a free list consisting almost entirely of foodstuffs and raw materials; declared that imports from the Crown Colonies would remain duty free and those from members of the British Commonwealth of Nations free until November 15, 1932, when any arrangements made at the Ottawa Conference of July 1932 would become effective; and set up an Import Duties Advisory Committee with power to recommend to the Treasury additions to or removals from the free list and supplementary duties or their removal. The Treasury and Board of Trade shared power to alter *ad valorem* duties to specific ones and to raise or lower duties on the products of individual countries.[33]

On the basis of the first recommendations of the Import Duties Advisory Committee,[34] 20 per cent *ad valorem* was adopted as the base tariff rate on manufactured goods, with many luxury articles taxed at 25 and 30 per cent. In accordance with subsequent reports of the I.D.A.C., and often after direct pressure by the home producers concerned, the British tariff has steadily risen on all classes of goods.[35] Increased protection has been justified sometimes on the ground that foreign luxuries should be excluded, and sometimes because imports of low-priced foreign goods were preventing the maximum use of British industrial plants.

PROMOTION OF EXPORTS

Since the war Great Britain had dropped from first to second place among the nations of the world in exports, but still exported over one-quarter of its production of movable goods in contrast to a tenth in the case of the United States; even in the depression its foreign trade, both export and import, was highest per head of population among the five greatest trading nations.[36] The tariff was expected to aid the depressed exporting industries, as well as those producing for the home market, by giving Britain a bargaining weapon for conclusion of agreements lowering trade restrictions on British exports. From Germany and France, however, the Board of Trade obtained merely the partial restoration of duties and quotas which had been revised since 1931 in retaliation against Britain's departure from gold and adoption of a tariff. The German quota on British non-bunker coal, which had been gradually lowered from 420,000 to 100,000 tons a month since September 1931, was raised by an exchange of notes in the spring of 1933 to 180,000 tons.[37] France's denunciation of its most-favored-nation treaty with Great Britain early in 1934 climaxed the tariff war which had been raging between the countries with increasing severity since October 1931.[38] The Anglo-French agreement of June 1934, which withdrew the prohibitive rates of February 1934 and restored most-favored-nation treatment, merely guaranteed Great Britain

29. The Housing bill passed the House of Commons in May, and its third reading in the Lords on July 17, 1935.

30. Cf. the Party Manifestoes, cited. The effectiveness of the depreciation of sterling as a protective tariff was of course negatived so far as the "sterling area" was concerned.

31. *Public General Acts*, 22 George V, 1931, Chapter 1. The imports affected were European, particularly German, in origin. Edwin M. Fitch, "Britain's New Tariff Policy," *Rawleigh Foundation Bulletin*, vol. I, No. 2, June 15, 1932.

32. *Parliamentary Debates, House of Commons, Official Reports*, February 4, 1932, vol. 261, pp. 287-8.

33. *Public General Acts*, 22 George V, 1932, Chapter 8.

34. *White Paper*, Cmd. 4066 (London, H. M. Stationery Office, April 1932).

35. The average *ad valorem* customs duty on British imports increased from 10 per cent in 1929 to over 27 per cent in 1934. The Treasury approved nine recommendations for additional duties on a varying number of items in 1932, 23 in 1933 and 36 in 1934.

36. Hugh Butler, *The United Kingdom* (Washington, Government Printing Office, 1930), p. 504; *The Economist*, August 4, 1934.

37. "Exchange of Notes in regard to Commercial Relations between H. M. Government and the German Government," April 13-May 3, 1933, *Treaty Series* No. 15, Cmd. 4319 (London, H. M. Stationery Office, 1933).

38. From 1931 to 1933 French exports to Britain, in millions of francs, fell from 5,043 to 1,676, and British imports into France, from 3,724 to 2,167. *The Economist*, March 24, 1934.

its former proportional share in the French market, with special consideration for coal and other important exports.[39]

Moreover, the principle of imperial preference incorporated in the Import Duties Act forced Great Britain, in negotiating with Empire countries, to circumscribe the concessions which it might make in foreign trade agreements. At the Ottawa Imperial Conference of July 1932 Great Britain obtained assurances from the Dominions, India and Southern Rhodesia that they would increase their tariff preferences on British goods.[40] In return, Britain placed a duty on foreign wheat, copper, lead and zinc; limited other foreign agricultural imports by quota; and pledged itself to continue duty-free entry of Empire products for five years, and not to reduce the 10 per cent duty on foreign timber, leather, zinc, lead, asbestos and certain agricultural products without the consent of the Dominions. Moreover, as an "automatic consequence" of the Ottawa Agreement with Canada, Britain denounced its trade agreement with the Soviet Union.[41]

Britain's restricted bargaining power was not a fatal handicap, however, in bargaining with countries for which the British market is a vital necessity. In return for a guaranteed percentage or minimum quantity of certain British agricultural imports, Denmark, Norway and Sweden agreed to take respectively 80, 70 and 47 per cent of their coal requirements from England and to stabilize a number of tariff rates.[42] By concessions concerning the import of Argentine meat, Britain obtained the guarantee that coal would remain on the Argentine free list, substantial reductions of textile duties, and other reductions and stabilizations of duties.[43] Similar agreements have been made with Estonia, Finland, Iceland, Latvia and Lithuania; commercial treaties have also been concluded with The Netherlands, Poland, Turkey and Uruguay.[44]

The National Government was unsuccessful in its efforts to conclude an agreement with Japan for dividing up the world's cotton markets and so prevent a further relative decline in Lancashire exports.[45] It consequently used its influence to reserve Empire markets for British cotton goods. India's trade agreement with Japan fixed the duty on Japanese cotton goods at 50 per cent *ad valorem*, or twice the tax on Lancashire products, and the British agreement with India supplementary to the Ottawa agreement[46] specified that the tax on British cotton will be reduced to 20 per cent as soon as the second revenue surcharge of 5 per cent is removed as a general measure by the Indian government. In Egypt, the Straits Settlement and British East Africa the 1933 tariff increases against Japan were retained. The British government denounced the commercial treaty between Japan and British West Africa, and fixed import quotas for all foreign cotton and rayon textiles in the Crown Colonies at 100 per cent of the 1927-1931 averages, thus cutting Japan's quotas by 57 per cent.

REORGANIZING INDUSTRY

The National Government has passed no act comparable to the NIRA nor set up any National Recovery Administration to work out industrial codes in the interest of producers, workers and consumers. It has, however, required or encouraged the reorganization of particular industries. It specially protected the British iron and steel industry, whose prosperity was deemed "essential for economic progress and vital for national security," in order that the industry might thus be enabled to correct the confusion which had followed war-time expansion. The 33⅓ per cent tariff rate on foreign iron and steel, which had been imposed in the spring of 1932 pending an investigation of the British industry, was extended in the autumn until October 1934 in anticipation

39. "Agreement and Protocols in regard to Trade and Commerce between H. M. Government and the French Government," June 23, 1934, Cmd. 4632 (London, H. M. Stationery Office, 1934).

40. Cf. Maxwell S. Stewart, "The Ottawa Conference," *Foreign Policy Reports*, December 21, 1932. Half of these promises were fulfilled by raising the duty on foreign products; many reductions in favor of British goods, moreover, were made on rates recently raised against both the mother country and foreign states. It remained the guiding principle of Dominion trade policy that British exporters should be allowed no more than "full opportunity of reasonable competition on the basis of relative cost of economic and efficient production."

41. British exporters suffered more than the Soviet Union by the decrease in trade. The Temporary Agreement of February 1934, *Treaty Series* No. 11, 1934, Cmd. 4567 (London, H. M. Stationery Office) was intended gradually to balance payments between the two countries; the British government has complained that it has resulted mainly in an increase of British re-exports of colonial products. *The Economist*, September 29, 1934; *The Times*, May 10, 1935.

42. "Agreement in regard to Trade and Commerce between H. M. Government and the Government of Denmark," *Treaty Series* No. 34, 1933), "...of Norway" (*ibid.*, No. 4, 1934), and "...of Sweden" (*ibid.*, No. 32, 1933).

43. "Agreement and Protocol in regard to Trade and Commerce between H. M. Government and the Argentine Republic," *ibid.*, No. 3, 1934, Cmd. 4494 (London, H. M. Stationery Office, 1934).

44. Negotiations are in progress with Egypt, Peru and Spain. *The Times*, April 20, July 4, 1935.

45. Cf. T. A. Bisson, "Japan's Trade Expansion," *Foreign Policy Reports*, October 10, 1934, pp. 202-04. In 1933 Japanese exports of cotton cloth exceeded those of Great Britain for the first time.

46. Cmd. 4779 (London, H. M. Stationery Office, 1935).

of the industry's voluntary rationalization. Nevertheless, the plan of the steel men's committee providing for amalgamations and the suppression of surplus plant, coöperative exporting, and statutory powers or economic sanctions to coerce recalcitrant producers was rejected in the spring of 1933 on the ground that it placed too much power in the heavier branches of the trade. Despite pressure from the chairman of the I.D.A.C. for effective reorganization, the National Federation of Steel Manufacturers rejected a detailed plan in February 1934.[47] After adopting a new constitution at its April meeting, the British Iron and Steel Federation thus formed contented itself with resolutions in favor of promoting production and marketing efficiency. The I.D.A.C. nevertheless recommended, and Parliament on June 8 approved, indefinite extension of the duty.[48] On March 26, 1935 the rates on certain rougher categories of iron and steel were made specific at rates equivalent to 50 per cent *ad valorem* in order to give the British Federation better bargaining power in negotiations with the Continental Steel Cartel.[49] In June the British and Continental groups worked out a five-year agreement very favorable to British interests with regard to both imports and exports.[50]

In contrast to the *quid pro quo* policy of iron and steel duties in return for industrial reorganization, the Ottawa and foreign trade agreements have not been made on condition that the exporting industries rationalize production and marketing. The National Government has done nothing to implement the 1933 report of the reorganization commission appointed under the Coal Mines Act of 1930, which recommended far-reaching amalgamations and federation and the fundamental reform most needed for the prosperity of coal mining—nationalization of royalties to the owners of coal-bearing land. It has, however, encouraged reorganization of the cotton textile industry by lending its authority to the plan of the Federation of Master Cotton Spinners' Associations for buying up and scrapping 10,000,000 surplus spindles. Since a two-thirds majority of the industry approved the scheme, the government introduced a bill which makes the £2,000,000 levy for buying up the surplus spindles compulsory on firms remaining in operation.[51]

The National Government made industrial reorganization a prerequisite for the major portion of the aid granted to British shipping in 1934 and 1935. It successfully urged and then rewarded the merger of the rival Cunard and White Star Lines with loans at exceptionally low rates—£1.5 million for working capital, £3 million with which to finish Cunarder "534" (now the *Queen Mary*), and up to £5 million for the construction of her sister ship.[52] The British Shipping (Assistance) Act, 1935,[53] provided an unconditional subsidy of £2 million for tramp shipping in 1935, but authorized a government loan of £10 million spread over two years for a limited "scrap and build" program in return for the establishment by the industry of a Tramp Shipping Administrative Committee which should promote efficient reorganization and attempt to reach an agreement with foreign interests to eliminate wasteful competition.[54]

GOVERNMENT AID TO AGRICULTURE[55]

Since the repeal of the corn laws in 1846, the policy of cheap food for the growing industrial population of Great Britain had almost entirely precluded state aid to British farmers. In spite of its dwindling importance, agriculture remained the nation's third largest industry, engaging a million and a quarter men, of whom three-fifths were agricultural laborers.[56] Although Great Britain, in company with the rest of the world, suffered a disastrous drop in farm prices

47. For a summary of the attempts at national planning up to February 1934, cf. *Planning* (P.E.P., London), No. 20, February 13, 1934.

48. The government could no longer effectively threaten the steel industry with tariff reduction if it failed to rationalize, since the steel men could, in turn, threaten to discharge workers employed as a result of the industry's recovery under protectionism. Although piecemeal progress in technical, economic and financial rationalization has been rapid since the duty was made permanent, little has been accomplished toward creating a new corporate structure for the industry. Cf. *Planning*, No. 48, April 9, 1935.

49. Additional Import Duties Order No. 6, 1935, *Statutory Rules and Orders*, No. 242, 1935. The new duties were suspended as from May 6 at the request of the Federation, since the Cartel agreed to limit its exports to England for three months to the 1933 level. Cf. *The Times*, May 1, 4, 1935.

50. Cf. *The Economist*, June 15, 1935.

51. *The Times*, July 3, 5, 1935. During the operation of the scheme no new plant may be built unless it is acquired through the Spindles Board with the surrender of equivalent plant.

52. North Atlantic Shipping Act, 1934, *Public General Acts*, 24 George V, Chapter 10.

53. *Ibid.*, 25 George V, Chapter 7.

54. Clause 24 of the Finance Bill of 1935 proposes to further industrial rationalization by remission of taxation. When a scheme to rationalize an industry has been approved by the Board of Trade as in the interests of the industry and the nation as a whole, any levy paid toward the scheme may be deducted as an expense in computing profit or gains for income tax purposes. *The Times*, May 15, June 20, 1935.

55. For a comprehensive critical source on British agricultural policy, cf. *The Agricultural Register*, published by the Agricultural Economic Research Institute of Oxford University.

56. Ministry of Agriculture and Fisheries, *The Agricultural Output and Food Supplies of Great Britain* (London, H. M. Stationery Office, 1929).

after 1929,[57] the agricultural problem facing the National Government differed from that in the United States. The revolving fund of £5,000,000 granted to the Agricultural Mortgage Corporation under the Agricultural Credits Act of 1928 was deemed sufficient to rescue mortgaged farms from foreclosure proceedings.[58] Since British farmers produced only 40 per cent of the requirements of the unprotected British market,[59] the fall in prices could not be halted by any scheme for reduction of output comparable to the AAA. The National Government therefore determined simultaneously to increase home production and raise prices by curtailing cheap overseas food imports, and to give preference to Empire over foreign produce.[60]

Exclusion of overseas foodstuffs was begun in December 1931 by the Horticulture Products (Emergency Customs Duties) Act,[61] which protected British growers of vegetables, fruit and flowers from having the "cream prices" skimmed off the British market by earlier-maturing foreign produce. On March 1, 1932 the 10 per cent tariff of the Import Duties Act applied to all foreign food imports except wheat in grain, maize, most meat, live animals and some less important items. The Wheat Act[63] of July 1932 in effect curtailed imports and taxed the consuming public for the benefit of the British farmer. The difference between a guaranteed price for the "wheat year" beginning each August 1 and the market price on British wheat was to be made up to farmers by a "deficiency payment" financed by a processing tax on millers and importers of flour.[64]

Home-grown wheat was virtually guaranteed a market, since the Flour Millers' Corporation set up under the Act could be ordered by the Ministry of Agriculture to buy up in June one-eighth of the anticipated supply for the next year. The Ottawa Agreements Act added further tariffs and introduced quota restrictions on foreign imports in order to assure preferential treatment for Dominion produce. Great Britain not only pledged itself to maintain the tariff on foreign goods and the free import of Empire products,[65] but also imposed a duty of two shillings per hundredweight on foreign wheat, removed maize and linseed from the free list, and placed higher and specific duties on foreign butter, cheese and milk products, eggs, honey, and canned and certain raw fruits. While Australia agreed to stabilize exports of frozen mutton and lamb, Great Britain pledged itself not only to stabilize imports of foreign chilled beef but also gradually to restrict imports of foreign frozen mutton, lamb and beef to 65 per cent of the corresponding quarter of the "Ottawa year," ending June 30, 1932.[66]

These protective measures having proved insufficient to raise prices,[67] the National Government attempted to restore prosperity to agriculture by measures for reorganizing the marketing methods of the British farmers comparable to the American NIRA and NRA for industry. While emphasizing the fact that the farmers could draw up their own schemes and enter them of their own free will rather than under government compulsion,[68] Major Walter Elliot, the new Minister of Agriculture, adopted the method of the 1931 Agricultural Marketing Act, passed by the last Labour Government. This Act, which had remained a dead letter, provided that after public hearings, parliamentary approval, and a ballot in which two-thirds of the producers voted and those representing two-thirds of the total productive capacity

57. British agricultural prices fell as follows:

	Cereals	*Livestock Products*	*Fruits and Vegetables*
1925-29 average	142	152	172
1930	106	147	121
1931	86	127	134

Ministry of Agriculture's Index, based on the 1911-1913 average, quoted in *The Economist,* July 28, 1934.

58. Although there were sporadic protests against the payment of fixed sums in tithes to the Church of England when agricultural prices had fallen, the government withdrew an amendatory tithe bill in June 1934 in favor of setting up a Royal Commission to investigate the subject.

59. Britain imports 57 per cent of its beef requirements, 56 per cent of its mutton, 89 per cent of its butter, 55 per cent of its eggs, 67 per cent of its cheese, and 20 per cent of its wheat.

60. As in the case of industry, the National Government has adopted protective methods for agriculture in the order of their increasing burden on the Treasury: first import duties, which bring in revenue; second quotas and the processing tax, which bring in no revenue but entail only the cost of administration; third subsidies, which are wholly a government expenditure.

61. *Public General Acts,* 22 George V, 1931, Chapter 3.

63. *Ibid.,* 22 and 23 George V, 1932, Chapter 24.

64. Full deficiency payments were limited to 27,000,000 hundredweight of home-grown wheat. For the wheat year 1932-1933 the crop was estimated at 19,800,000 hundredweight, the market price at five shillings, and the guaranteed price fixed at 10 shillings a hundredweight.

65. Cf. p. 135. Britain, however, reserved the right to impose quantitative regulation or duties—while maintaining the margin of preference over foreign imports—on Empire eggs, poultry, butter, cheese and other milk products after three instead of five years.

66. In November 1932 emergency measures reduced both Empire and foreign meat imports; gentlemen's agreements continued Dominion meat export restrictions for 1933. The Argentine Trade Agreement conditionally limited reduction of chilled beef imports by Britain and provided that the Dominions should also be affected by any reduction greater than 10 per cent. Argentine beef was to remain duty free until November 1936. In December 1933 drastic quotas were imposed on beef, veal and cattle imports from both Dominion and foreign sources.

67. The index of agricultural prices based on 1927, which had stood at 64.5 for cereals and meat and 62.2 for other foods in September 1931, had fallen to 63.4 and 59.7 respectively by March 1933. *The Economist,* March 11, 1933.

68. Cf. *Parliamentary Debates, House of Commons, Official Reports,* March 20, 1933, vol. 276, pp. 60-61.

voted favorably, a board might be set up to coordinate the farmers' marketing of any specific product. Subject to provisions for safeguarding consumers, a marketing board was empowered to grade, pack, store, advertise and transport the product; to regulate prices and the quantities for sale; to require estimates of production; and to promote education and research. Major Elliot's Agricultural Marketing Act of 1933[69] was designed to induce farmers to rationalize their marketing by empowering the Board of Trade to impose such restrictions as might be needed on the importation of any product for which a marketing scheme was in force or under consideration.

"Elliotism" has become the outstanding example of "planned economy" under the National Government; on July 1, 1934, 36.5 per cent of British agricultural output was regulated by marketing schemes.[70] Besides grading the farm produce and rationalizing the actual marketing processes, the marketing boards license producers, fix statutory prices in advance on the basis of the reasonably accurate estimate of total supplies made possible by import quotas and domestic production contracts, adjust final payments according to market prices, and in some cases level the return to farmers in different districts. The Potato Board limits home production by marketing only potatoes over a certain size, and is empowered to impose a fine for increased acreage; present hop producers have a statutory monopoly. Potatoes may be imported only under license; hop imports are limited to 15 per cent of brewers' requirements; manufactured milk products are dutiable and limited by voluntary agreements with the exporting countries; and bacon imports are limited to the difference between estimated consumption and the total of home bacon pig contracts.[71]

"Elliotism" has by no means enjoyed unqualified success. In 1934 the hops scheme had to be amended because its very success in raising prices led to a revolt of the brewers. On the other hand, the government was forced to save the milk scheme from collapse by guaranteeing as from April 1934 the price of the "surplus" milk hitherto sold at a loss to the manufacturers.[72] Even though the government has subsidized the distribution of milk to school children, the rise in liquid milk consumption has not kept pace with the rise in total production.[73] A reorganization commission has been appointed to study the working of the present scheme, which the Milk Board is likely to amend in order to lessen the spread between the return to farmers and the price to consumers of liquid milk.[74] During the first contract period of the Pig and Bacon Schemes the government had to loan the curers £500,000 to enable them to accept the rush of pig contracts; but the steady delivery stipulations of the 1935 contracts caused such a drop in the number of pigs offered that curers were forced to present further contracts for delivery at any time, and even these met with an unsatisfactory response. Farmers claim that the new scale of grading pigs and the lower prices will turn their profits to a loss, and the chairman of the Pigs Marketing Board has led the demand for a levy on imports, like that on wheat flour, which should be turned over to the producers.[75]

In 1934 the National Government added subsidies to its other methods of aiding British agriculture. It renewed for 11 months the beet sugar subsidy of 1925,[76] long considered "wrong in principle, faulty in technique, and ruinously costly" and known to have altered rather than increased agricultural production in England.[77] When the

69. *Public General Acts,* 23 and 24 George V, 1933, Chapter 31.

70. *Planning,* No. 32, July 31, 1934. Marketing schemes are already in operation for pigs, bacon, milk, potatoes and hops; in February 1935 the report of the Reorganization Committee for Eggs and Poultry was published, and in March Parliament set up a Herring Industry Board (Herring Industry Act, *Public General Acts,* 25 George V, Chapter 9) whose scheme has been approved by both Houses of Parliament. *The Times,* May 25 and 29, 1935.

71. Beginning in 1936, if the assent of countries promised free entry of bacon by trade agreements can be secured, bacon quotas will be raised but will be supplemented by a levy which will be paid over to the British producer. *The Times,* June 8, 1935.

72. The guarantee, estimated to cost £1,000,000 annually, is in the form of a loan repayable only if the price of milk for manufacture reaches 6d. in summer and 7d. in winter. There seems at present no prospect of the necessary price rise.

73. From January 1934 to January 1935 the consumption of liquid milk rose only 6 per cent and milk sold to manufacturers, 60 per cent. *The Times,* February 25, 1935. The high per cent of total output sold for manufacture—40 per cent in April 1935—has brought the farmer's net price down to 10d. a gallon, which "cannot be considered a remunerative return." *Ibid.,* leading article, June 10, 1935; *The Economist,* June 15, 1935.

74. Cf. statement of the Minister of Agriculture, *Parliamentary Debates, House of Commons, Official Reports,* January 28 and February 11, 1935, vol. 297, pp. 10 and 1558-60. The Consumers' Committee investigating the effect of this milk marketing scheme has been perturbed by the frequent rise in retail prices.

75. Cf. footnote 71. For complaints against the Pigs and Bacon Scheme, cf. *The Economist,* December 8, 1934; *The Times,* February 4, 1935; also letters to the editor, *The Economist,* December 15, 1934; *The Times,* December 17, 1934, January 14 and February 4, 1935; and later issues.

76. British Sugar (Subsidy) Act, *Public General Acts,* 24 and 25 George V, 1934, Chapter 39. Because the report of the United Kingdom Sugar Industry Committee was delayed, the government has renewed the subsidy through August 1936. *The Times,* June 28, 1935. The majority report of the Committee (*Blue Book,* Cmd. 4871) favored discontinuing state assistance.

77. Cf. *The Economist,* August 11, 1934; Bridges and Dixey, *British Beet Sugar* (Oxford, University of Oxford Agricultural Economic Research Institute, 1934). British production is less efficient than that of other countries where beet sugar is subsi-

successive reductions in meat imports failed to reverse the downward trend of prices,[78] the government provided the cattle industry with a subsidy up to £3 million for the remaining nine months of the 1934-1935 fiscal year.[79] Pending the determination of a long-term policy in consultation with the exporting countries, it extended the subsidy through June 1935, at the same time announcing that it favored a levy on all imports with preference for Dominion meat, the levy to be turned over to British cattle raisers after the manner of the processing tax on wheat.[80] Failure of the negotiations caused the necessity of further extending the subsidy, first through September 1935, and finally through October 1936, at a total estimated cost of nearly £9,500,000.[81]

CRITICISMS

Thus the efforts of the National Government to lift Great Britain from the depression have for the most part been directed to save successive groups of hard-pressed producers, benefiting consumers only in so far as the latter belonged to one of the assisted producing groups. Taxpayers have been rewarded by the modest gains attendant on restored confidence in the national finances. The government has adopted the eminently orthodox measures of cheap money and a protective tariff; its "interference" with industry and agriculture consists in safeguarding and administering voluntary rationalization. The government has not attempted to end the depression by monetary inflation or by putting the unemployed to work at its own expense.

Critics point to the failure of the National Government, charged with unfettered powers for the full Parliamentary term, to present a "five year plan" for the country's rehabilitation. Often, it is claimed, the National Government has followed rather than led the way in the adoption of reconstruction measures. Public opinion forced it to reverse its economy policy for housing and to subsidize the completion of the *Queen Mary;* pressure by special interests brought about the iron and steel and other duties and the continuation of the beet sugar subsidy. As a result of this haphazard method, legislation has been hurriedly framed which has had to be amended, such as the milk marketing scheme; or else the government has failed to deal with certain declining trades, such as tramp shipping and the herring industry, until their condition had become desperate. Although for some years there has been a shift in demand from beef to mutton and lamb, the government has made a succession of efforts to save the British beef industry. After failing to increase consumption of the higher priced English beef by imposing quotas to reduce imports of the cheaper Argentine meat,[83] it has desired to tax beef imports. But its uncoordinated measures prevent it from putting through a tariff on Argentine meat until November 1936, and on Empire meat until July 1937, and have therefore forced successive extensions of the "temporary" subsidy.

Observers also criticize the National Government for confusion regarding the significance of its own policies. In order to "save Britain from ultimate bankruptcy" through an adverse balance of payments,[82] the National Government attempted to reduce imports rather than bring about a revival of world trade, on which restoration of the normal balance largely depended. By tariff and quota restrictions the government succeeded in narrowing the adverse balance of commodity trade until the demand for imports which followed revival of the home market widened it once more in 1934. Yet this increased adverse trade balance failed to create a serious adverse balance of payments or alarm the government as in 1931, because simultaneous recovery abroad increased the invisible items in Britain's favor.

dized. The total cost of the subsidy to February 13, 1934 had been £39,631,000, and the estimated cost for 1934-1935 was £3,250,000; the request for a supplementary vote of £1,150,000 in February 1935 because of an unexpectedly large acreage, yield per acre, and rate of sugar extraction revealed that "the more the profit, the more the subsidy."

78. Cf. "The Livestock Situation," *White Paper*, Cmd. 4651 (London, H. M. Stationery Office, July 1934); also "Meat Supplies and Prices" (from which the following table on beef and veal is taken), *The Economist*, December 29, 1934:

(1,000 tons)	*1930*	*1932*	*1933*	*1934**
Empire imports	63	84	115	149
Foreign imports	583	531	496	451
Total	646	615	611	600
Home supplies	622	573	560	....
Total	1,268	1,188	1,171	....
Average wholesale price (per 8 lbs.)				
English	5/8	4/11	4/5	4/4
Argentine	4/11	3/11	3/9	3/9

*On the basis of the first ten months.

79. Cattle Industry (Emergency Provisions) Act, *Public General Acts*, 24 and 25 George V, 1934, Chapter 54.

80. Cf. "Statement of the Views of H. M. Government in the United Kingdom on Imports of Meat," *White Paper*, Cmd. 4828 (London, H. M. Stationery Office, 1935). The Australian government opposed this policy unless it was supplemented by quotas on foreign meat. *The Times*, March 7, 1935.

81. *The Times*, June 21, 27, 1935. "Cattle Industry (Emergency Provisions) No. 2, Memorandum on Financial Resolution," *White Paper*, Cmd. 4941 (London, H. M. Stationery Office, July 1935); *The Times*, July 16, 1935.

82. Cf. footnote 78, and *The Economist*, December 29, 1934.

83. Cf. the Conservative Manifesto, cited.

ESTIMATE OF THE BALANCE OF PAYMENTS OF THE UNITED KINGDOM†

(in £ millions)

	1929	*1931*	*1932*	*1933*	*1934*
Excess of imports of merchandise and silver bullion and specie	381	408	287	263	295
Estimated excess of government payments made overseas*	....	....	24	***	....
Total	381	408	311	263	295
Estimated excess of government receipts from overseas*	24	14	....	***	9
Estimated net national shipping income**	130	80	70	65	70
Estimated net income from overseas investments	250	170	150	160	175
Estimated net receipts from commissions, etc.	65	30	25	30	30
Estimated net receipts from other sources	15	10	15	10	10
Total	484	304	260	265	294
Estimated total credit or debit balance on items specified above	+103	—104	—51	+2	—1

*Including some items on loan accounts. **Including disbursements by foreign ships in British ports. ***No appreciable excess of payments or receipts.

†*The Economist,* February 18, 25, 1933; February 24, 1934; February 23, 1935.

The most disastrous aspect of lack of real planning, according to critics of the Cabinet, has been the inconsistency between the government's trend toward economic nationalism and the fundamental dependence of British economy on international trade. Although the depression has centered in the exporting industries, efforts on their behalf have been the weakest measures of the government.[84] The Ottawa and foreign trade agreements have been partially offset by reprisals against the British tariff on the part of France, Germany, the Irish Free State and other British customers. Successful bargaining for the Scandinavian and Baltic coal markets has driven Polish exporters to compete with Britain in the Mediterranean and South America, forcing British coal companies to reach an agreement for division of these markets with their new rivals.[85] In so far as it succeeds in decreasing imports, moreover, the National Government reduces the power of overseas countries to buy British exports or repay past borrowings in England, and harms British shipping. The curtailment of food imports is especially vicious because agricultural countries have not only been important purchasers of British capital goods but are also Britain's debtors for past loans. The 1935 Report of the Chamber of Shipping complained that "tariffs, quotas and agricultural subsidies have necessarily deprived shipping not only of inward cargoes but of the outward cargoes which would have been exported to pay for the excluded imports . . . with consequent injury to the shipping industry, shipbuilding, engineering, and other industries wholly or partly dependent on it."[86] One consequence of this system of economic nationalism "admirably conceived to stabilize depression"[87] has been the necessity of the £2,000,000 subsidy to British tramp shipping. Although the adverse effect of curtailed imports on the export trade could have been partially offset by a liberal policy of foreign lending, Neville Chamberlain's total embargo on foreign loans from June 1932 to July 1934 and present extension of the embargo on loans to non-sterling bloc countries has hindered a rise in exports as well as an increase in the business of financial houses.[88] Since assuming the Premiership in June 1935, Stanley Baldwin has underlined the dependence of Britain on international trade without explaining how that dependence was to be harmonized with the policy of stimulating domestic activity.[89]

How far these measures have been responsible for the recovery apparent in Great Britain, whether the absence of national prosperity is attributable to sins of omission or of commission on the part of the National Government, and whether prosperity may be attained by a continuation of the present policies will be discussed in the next issue of *Foreign Policy Reports.*

84. According to these critics, the temptation to rely on domestic recovery—strong in 1931 in view of the trade restrictions and reduced purchasing power of other countries—no longer excuses the government's failure to direct its major efforts toward reviving Britain's export industries.

85. *The Times,* December 7, 1934.

86. *Manchester Guardian Weekly,* March 1, 1935. Mr. Harris, President of the Chamber of Shipping, estimated that in 1934 alone losses to British shipping from the beet sugar subsidy, the Wheat Act, and the bacon scheme amounted to £925,000. *News Chronicle* (London), March 1, 1935.

87. *The Economist,* March 24, 1934.

88. A strong plea for foreign lending is made in *Planning,* April 10 and November 20, 1934.

89. *The Times,* June 8, July 10, 1935.